

Memorandum



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To Elizabeth Hagg

From Tim Eachus

Date 1/15/2015

Subject DRAFT Seven Corners Opportunity Area C – Feasibility Review

Background and Objectives

Pursuant to your request on January 12, 2015, Jones Lang LaSalle conducted a high level feasibility review of the projected redevelopment in the Seven Corners Opportunity Area C (hereinafter – the Project). The Project covers a 12-acre site, fronting Leesburg Pike. The site is currently occupied by a 160,000 s.f. retail building and two class B office buildings, totaling 105,000 s.f.

As part of your request we were provided with the following breakdown of potential uses contemplated on this site throughout projected redevelopment:

Proposed Use	Proposed FAR	# of units (JLL assumption)
Retail	40,000 s.f.	
Entertainment	45,000 s.f.	
Office	25,000 s.f.	
Senior Housing	100,000 s.f.	100
Townhouses	85,000 s.f.	40
Multi-family	390,000 s.f.	390
Two half-acre parks		

The total redevelopment density would be 685,000 s.f. of mixed uses compared to the current conditions of approximately 265,000 s.f. of commercial space. The preliminary plan is included at the end of this memo.

Our analysis sought to identify and compare two land value measures:

- Current Market Value of the site as is.
- Development Land Value of the site based upon re-entitlement of the property in line with the proposed development plan.

Comparing these two numbers would give us a high level estimate whether the Project generated any additional value above the property's existing market value. That additional value would be the incentive for an owner to fund and accept the risk of the rezoning process. We would also be able to project what changes to the program might be considered if the plan would not yield enough value to incent a reasonable owner to pursue re-entitlement.

Methodology and Results

To get a preliminary understanding the Current Market Value of the site we employed a comparable sales approach whereby we collected market evidence on sales of similar properties. Based on the collected land sale evidence we established projected values for the existing land and improvements as is. We confirmed these values by reviewing tax record to get an additional data point on the current value. From our review of the comparable transactions and the tax records we believe the current value to be in the \$22 - 24M range. Of note, the value of the existing assets has been declining recently due to increased vacancies and decreased sales leading to lower overall cash flow.

To incentivize a land owner to take on the effort, expense and risk of pursuing re-entitlement for their property, they would want to see a reasonable increase in the value of their property. In our opinion an additional \$4 - 5M would be a reasonable return of approximately 20% increase in land value for this property.

Those projections yield a market Development Land Value of \$27 – 28M. That means that a reasonable owner would want to achieve a development program that would provide at least that amount of land value.

The County provided us with a preliminary development program that we analyzed. JLL performed some preliminary projections to see if the development program provided by the County would deliver land values in that range. We analyzed the development program using comparable transactions to project land value for each use either on per unit (for residential uses) or per square foot (for commercial uses). The comparable land development values generated by each proposed use is the product of land value factor and projected density. These values are presented in the chart below:

Proposed Use	Land Value Factor	Land Value Conclusion	Comments
Retail	\$25 / SF FAR	\$2,125,000	Retail and Entertainment close substitutes for each other. So, for the purposes of this analysis they are treated as a single blended use and Land Value per SF is presented for the blended use. For a project of this size 85,000 SF is a high proportion of retail/entertainment use.
Entertainment			
Office	\$40 / SF FAR	\$1,250,000	We used office land comps collected from primarily suburban VA markets including Falls Church, McLean, Reston and lower density Rt 28/Chantilly and Herndon submarkets
Senior Housing	\$10,000 / market unit	\$850,000	Most of Senior Housing product in the area is typically combined with additional affordability covenants and LIHTCs. They tend to yield lower land values. Typical land supportable by such development ranges up to \$10,000/unit for the market based units.
Townhouses	\$220,000 / market unit	\$7,480,000	We used raw and graded land comps from suburban non-transit proximate locations across Metro DC.
Multi-family	\$35,000 / market unit	\$11,602,500	Multifamily land sale comps were collected across Northern VA and Rockville submarkets. The land value considered key attributes like proximity to Metro and other factors.
TOTAL		\$23,307,500	Estimated Development Land Value

Based on the collected sales comparable transactions and the proposed mix of uses the aggregate Development Land Value of the site is approximately \$23.3M.

This leaves a gap between the target Development Land Value and the land value attributable to the development program of approximately \$4M of development value. There are numerous ways that the gap could be addressed. The biggest influencers of value are the residential units. They yield the greatest value and could address this value gap. For example, by increasing the number of multi-family units by 140 or so units or by increasing the number of townhome units by approximately 22 you could deliver the additional development value required.

If additional square footage is not desirable, there are other potential ways to address the gap. By transferring some of the Senior Housing units to market units a portion of

the gap could be address. Or by building townhomes in lieu of some of the Entertainment space some of the gap could also be addressed. An example of using multiple factors to address the gap might include building 10 additional townhomes in lieu of 20,000 SF of Entertainment space, building 40 additional multifamily units and converting 50 of the senior units to market units. There are too many combinations and permutations to possible list, but depending on the County's objectives there are a number of ways to solve for the gap between the required Development Land Value and the value attributable to the development program.

Conclusions

Based on our very preliminary review of the existing assets and the development program we believe that a reasonable land owner would want to receive value beyond that of their current assets in order to incentivize them to expend the effort and costs as well as except the risk associated with a rezoning effort. We projected that premium at approximately 20% of value for this site. That yields a target Land Development Value of \$27 – 28M.

Our projection of the land value provided by the current development program is \$23.3M. This yields a projected value gap of approximately \$4M. To bring that land value up to the target Land Development Value there are a number of potential approaches. Since residential uses provide the greatest value per foot of development, they can most readily address the gap.

Building 22 additional townhomes or 140 additional multifamily units would serve to address the gap, but there are numerous combinations or program changes that could fill the gap depending on the County's preferences.

